RICHARD RUSSELL'S DOW THEORY LETTERS INCORPORATED

Since 1958 •

Post Office Box 1759, La Jolla, California 92038

26 Letters Per Year • $250 annually

Apr. 9, 1997 **LETTER 1223**

BEARISH STATISTICS: The **Dow** is down over 8% from its March 11 record high. But that's not the real story. The **"stealth bear market"** that I've been referring to in recent Letters was brought out in the open in the April 2 *WSJ.* Here are the *Journal's* figures as of April 1 -- on the Nasdaq, 55% of all stocks are now down 20% or more from their one-year highs, and a shocking 41% of all Nasdaq stocks are down 30% or more from their one-year high (study the box below). You have to wonder what this scoreboard will look like IF this turns out to be only the *start* of a primary bear market.

Percentage of stocks for each index that have fallen 20% or more below their one-year high

	NASDAQ	NYSE	S&P 500
20% or more	55%	24%	30%
30% or more	41	15	18
40% or more	30	9	12

THE MARKET: The Wall Street bulls, the brokerage house analysts, the big-name "experts," they're now conceding that the Dow could decline "maybe as much as 10% -- but hey, no big deal, the market is overdue for a correction anyway, so sit tight, hold on to your stocks, and stop worrying" (as per this article from the April 2 *WSJ*).

GETTING GOING / By Jonathan Clements

Advice for Jittery Investors: Sit Tight

As you might have noticed, the stock market appears to be falling apart. This is a tad disturbing. But it shouldn't make the slightest difference to how you manage your money.

Sure, if you need to cash in all your stocks this morning, so that you can buy shoes for the kids or put dinner on the table, you have a problem. But for the rest of us, who are University. "But that line of defense will probably be breached. So you have to set up mechanistic systems, to stop yourself from selling."

Before acting on any investment decision, Mr. Statman advises waiting a week or discussing the trade with your spouse or a friend, so you don't do anything impulsive.

The Russell reaction -- you really have to wonder how Wall Street's experts can be so confident. When a 1.9% yielding stock market turns down after rising for seven years without so much as a 10% correction, no one can possibly know what lies ahead. Sure, the whole correction could be over tomorrow. On the other hand, we could be witnessing the beginning of the biggest bear market in modern history.

But wait, the economy looks good, very good, so isn't the market weakness simply a reaction to the Fed's raising rates? Maybe, maybe not. Obviously, Wall Street knows that business is good and that there's very little inflation in the economy and that consumers are continuing to shop 'til they drop.

But all facts are **history.** The market isn't interested in yesterday's corporate reports or today's hot news. The market is only interested in **what lies ahead.** So forget the forecasts and premises and promises of the experts. Believe me, they know infinitely less than the market.

My veteran subscribers surely remember the situation which existed 23 years ago. What did the experts know in those dark and gloomy days of December 1974, as the stock market was positioning itself for the greatest bull market in history? If you were around during those black days, you knew as much as the experts knew -- which was next to nothing. So you have to ask yourself, "What's changed, and are the experts any smarter today? "

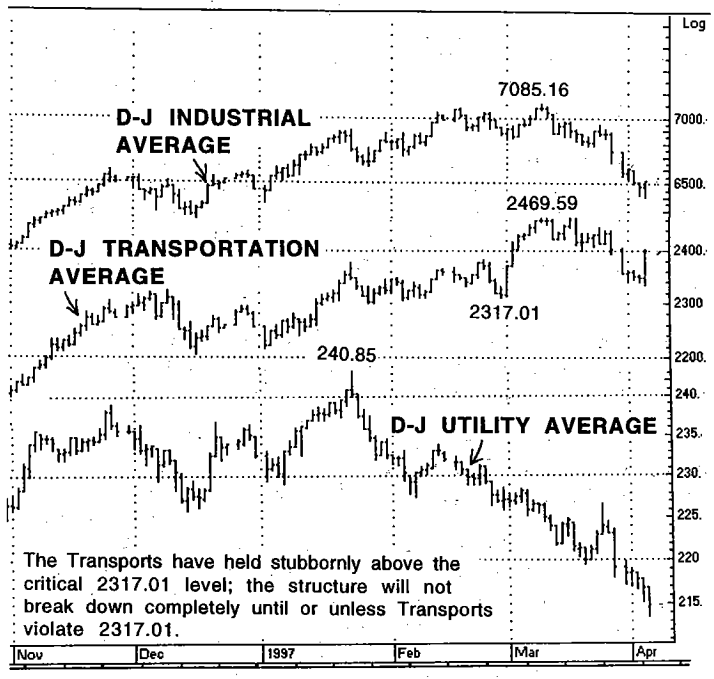
Mar. 27 DJIA 6740.59; PTI 4829; A-D Ratio +3.10
Apr. 4 DJIA 6526.07; PTI 4819; A-D Ratio +2.20
Dow Yield: 1.97%; Dow Price/Earnings: 17.9
Dow 144-day MA: 6493; Dow 34-day MA: 6781
Dow Times Book Value: 4.87; PTI 89-day MA: 4790
Percentage of Undervalued Blue-chips: 5%
Gold 144-day MA: 369

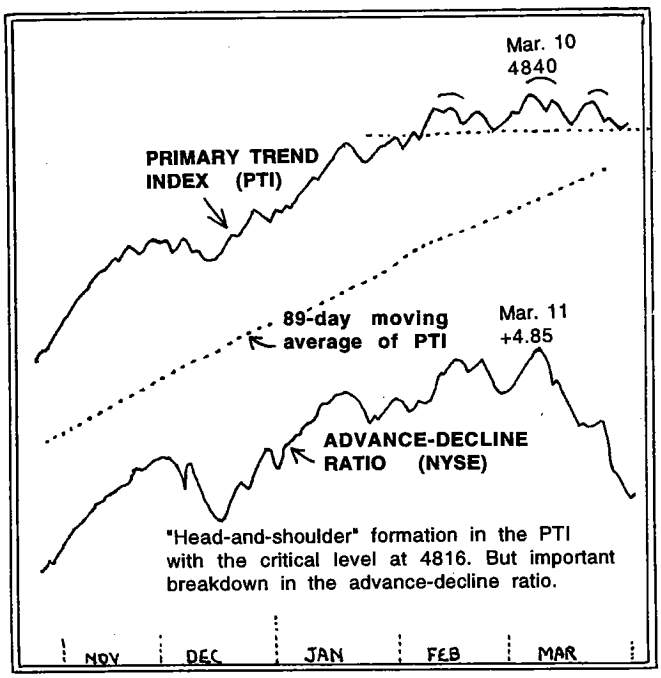
No, there's only one expert worth listening to. That expert is the character and the technical condition and the **action** of the market itself.

Yields: One notable feature of the markets since mid-February has been the big slide in the Treasury long bond. On March 27, with bond futures below 108, the **yield** on the long bond (i.e., bonds of 30-year maturity) pushed decisively above the critical **7%** level. With a 7.09% rate on bonds and 1.9% yields on the Dow -- the pressure on stocks is obvious. Note: most investors don't realize it, but **40%** of historical stock returns come from dividends. With dividend yields now below 2%, investors must count increasingly on stock appreciation. (But what if there's depreciation?)

Next, we come to the latter-day chorus of analysts who've been insisting that "in the new world of investing, dividends don't count." This chorus will be stilled if the market heads lower. Old-timers know that when the market heads south in earnest, there's nothing as comforting as a stock with a fat, well-covered dividend (well, there is one item that's more comforting, it's called cash).

Utilities/Bonds: In the last three Letters I stressed that one of the most potent bearish forces on common stocks is *a joint decline by both bonds and utilities.* This is what we've been seeing ever since mid-February, and the market has reacted as it always does in the face of this combination -- it has headed down (see page 2 chart).





Question: Russell, in your opinion how dangerous is the current market situation? **Answer:** I honestly can't be certain yet, but this is a good time to pay particular attention to my **Primary Trend Index** (see chart above). Currently, the PTI is doing something that I haven't seen in many years. The PTI has been tracing out the pattern of a "head-and-shoulders" top. Note that I've drawn a "neckline" or line of support at the 4816 level.

The Question: Will the PTI close below its support line at **4816,** thereby completing a head-and-shoulders top? Or will the PTI hold above its moving average (as it has done literally for years) and then move higher? **Answer: I never try to predict what the PTI will do,** but if 4816 is decisively penetrated by the PTI I'd say this market has put in an important top, in which case trouble lies ahead (see Late Notes on page 6 for more).

Levels: In the last Letter I included what I felt were important downside "support levels" for both the Dow and the S&P 500. The levels I listed were the March 4 Dow closing low of 6852.72 and the February 28 S&P closing low of 790.82. I then noted that these levels had both been violated on March 19, a decidedly bearish indication. As this is written, only the D-J Transportation Average continues to hold above its comparable critical level of **2317.01** (recorded on February 28). A violation of that low would simply magnify an ugly situation.

Conclusion: Dow theorists can relax (we're out of stocks anyway, they've been far too *overvalued* for us) **and the die is cast** -- although we don't yet know the verdict. If we're merely experiencing a correction, and this is still a bull market, then when the correction ends, the Averages and many stocks will rally to new highs.

On the other hand, if the primary trend has turned bearish, then the highs are behind us for the Averages and for the great majority of stocks. And much more pain lies ahead.

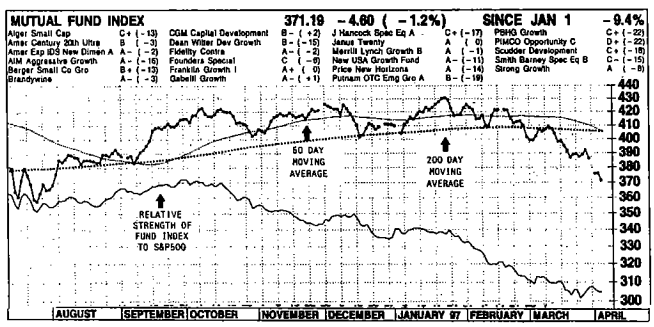
Smith Barney Research has published (March 21) a valuable article: "We dusted off a study we had done several years ago. We measured what percentage of all US traded common stocks had lagged the S&P by more than 15% in the last year. As of March 17, 50.8% of all stocks have lagged the S&P by more than 15% in the last year. According to our graph, this has happened only three times in the last 25 years: March 1973, July 1987, and May 1990. Within 12 months, the S&P saw declines of 18% to 30%. This, admittedly, is scary stuff . . . the divergence between the laggards and the market must be viewed as a sobering indicator."

INVESTMENT POSITION: I've replaced the bull with a question mark. That means that I haven't yet received *conclusive* evidence to tell me that this is a primary bear market -- nevertheless, I don't like this market, first on a valuation basis and second on market action itself.

Of course, what Richard Russell likes or doesn't like hardly makes the trend, but this is a personal report written by one man, and as such I feel that I must give my own personal opinions. I tell my subscribers all I know, and when I don't know all that I'd like to know, I admit that too.

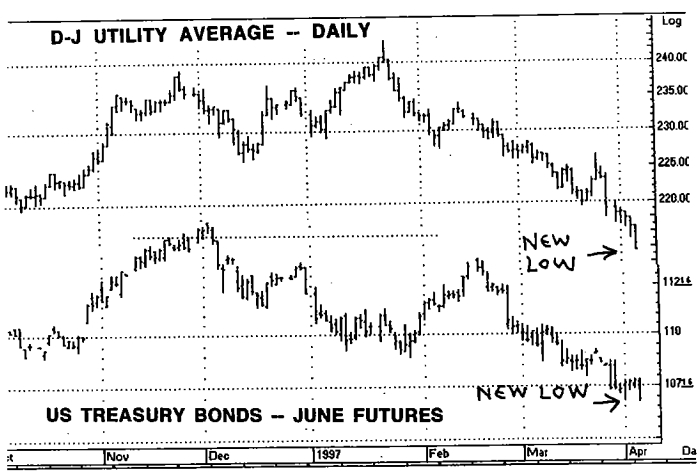
There have been a lot of losses so far in 1997, and as this is written the market is severely oversold. If this is still a primary bull market we should be in for a good (maybe surprisingly strong) rally. However, if the tide has turned and we are now in a primary bear market, then believe me, a bear market can remain oversold (even severely oversold) for weeks on end.

Well over a trillion dollars in US savings are now invested in an assortment of 7,500 mutual funds. The funds have not been faring well here in 1997, and I include this chart of *Investor's Business Daily's* **Mutual Fund Index**. This index of 23 leading equity growth funds topped out in May 1996, and, as of last week, the average of these 23 funds was **down 9.4%.** However, a few of the funds were down as much as 22%. If this kind of deterioration continues, we'll have our first real test of fear vs. fortitude on the part of America's mutual fund investors.



Again, I don't like the picture, and no, I don't think this is a repeat of 1987. And as I said in the last Letter, T-bills and two-year T-notes (the interest on both is free of state and local taxes) are looking better all the time.

My old friend, Burt Dohmen, says that in his experience people (amateurs) don't tend to sell their stocks until their bear market losses mount up to around 60%. Then they panic and start dumping. Let's hope that doesn't happen here. And above all, don't let that happen to you.

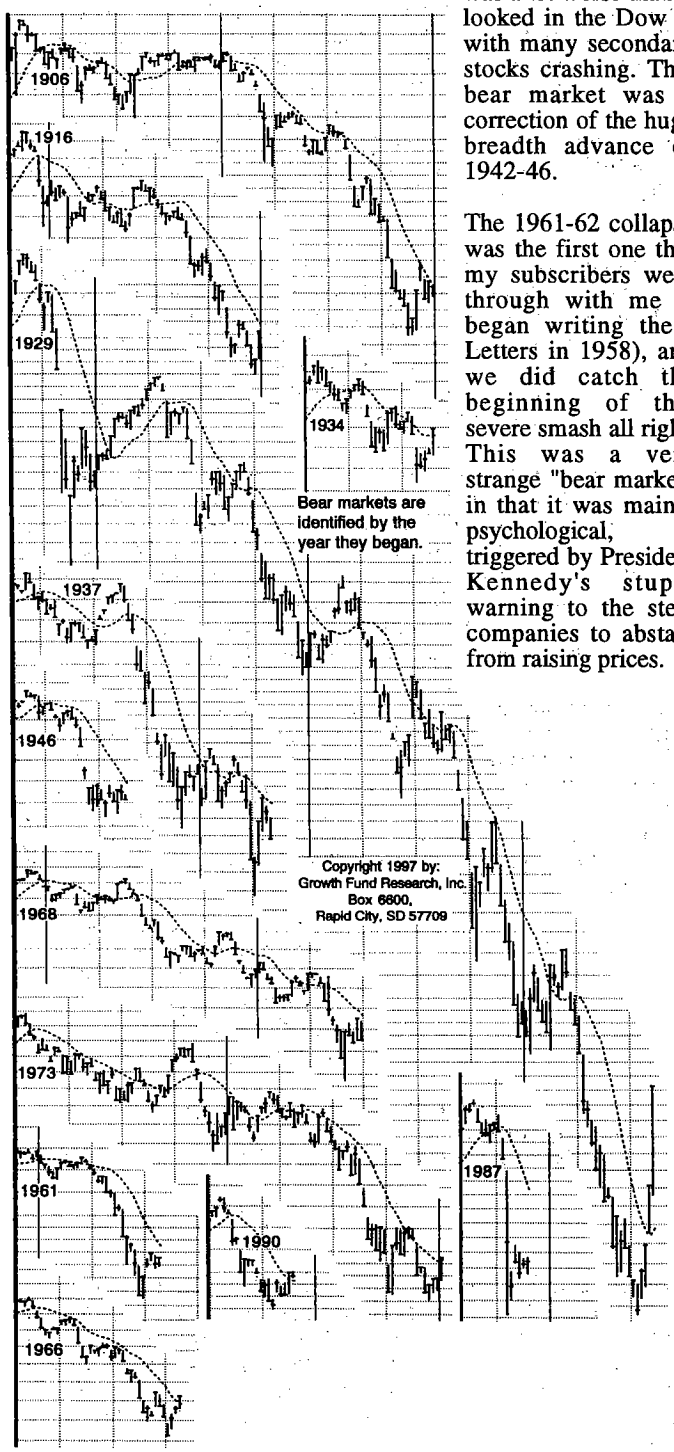


WHAT THEY LOOKED LIKE: My friends at *Growth Fund Guide* (Box 6600, Rapid City, SD 57709) not only do outstanding research, they publish great charts. This fine chart shows every bear market and major correction since the turn of the century.

The weekly charts are drawn to ratio scale (rallies and declines are shown in *percentages*) so that all action can be correctly compared.

The first thing you notice is the unbelievable duration and extent of the 1929-32 bear market, a collapse that wiped out 89% of the Dow's value. There's never been anything like the '29-'32 bear market, before or since.

The violent and costly 1937-38 bear market cut the Dow in half in a matter of 15 months.



The 1946 bear market was a lot worse than it looked in the Dow -- with many secondary stocks crashing. This bear market was a correction of the huge breadth advance of 1942-46.

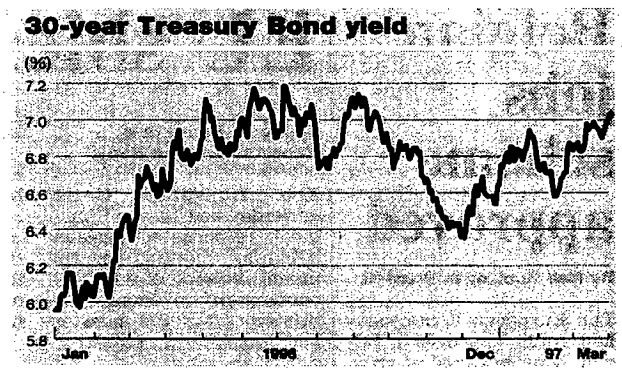
The 1961-62 collapse was the first one that my subscribers went through with me (I began writing these Letters in 1958), and we did catch the beginning of this severe smash all right. This was a very strange "bear market" in that it was mainly psychological, triggered by President Kennedy's stupid warning to the steel companies to abstain from raising prices.

I've always considered the whole period from 1966 to 1974 to be one extended, very complex bear market. But even if you don't agree, certainly the 1973-74 period alone must be classified as the worst primary bear market since the 1930s.

The 1987 panic decline was severe enough to be labeled as a bear market, but it was over in a matter of eight weeks, too short to be called a true bear market.

Now we have what might be **(1)** a rapid correction in the Dow with a longer and more sinister "bear market" in many of the Nasdaq, Amex and secondary stocks, or **(2)** the beginning of a true primary bear market which will impact on ALL sectors of the stock market (with the mutual funds being no exception). The Russell guess -- Number 2.

NOTES & QUOTES: Here comes the **competition:** today, you can buy a two-year Treasury note yielding around 6.30%, a note free of state and local taxes -- with a return of your capital in two years guaranteed by the US government. Against this you can buy the 30 Dow Industrials, which can go up or down, and which provide a taxable dividend yield of 1.9%. Take your choice. Meanwhile, the 30-year T-bond is interesting. At the current 7.05% yield, you figure if the yield goes as high as 8% you'll suffer some paper loss, but where would stocks be if long rates rise to 8%? On the other hand, if business turns down and the bond rate sinks to say 6% or 5%, you'll have a fat paper profit on your bonds while retaining a pretty juicy yield (chart courtesy of London's *Financial Times*).



* *

Volatility: For those who don't comprehend the meaning of volatility here it is: this year already the Dow has moved up or down 1% or more on 18 of the 60 sessions or about one in every three days!

* *

Greenspan may have boosted Fed Funds a mini quarter of a percent, but M-3 (the broad gauge of the money supply) has been rising at an 8% rate over the past six months. If you're not aware of it, 8% is a high figure.

* *

I thought the biggest overpayment in corporate history might have been the $2.5 billion that Ford paid for Jaguar. But no, Quaker paid $1.7 billion for Snapple, an unmitigated disaster. Quaker will sell Snapple for just $300 million, taking a $1.4 billion loss. Tea, anyone?

* *

The first and only war that the US has lost was also its stupidest war (in terms of lives and money) -- Vietnam. Now the US is losing two additional wars -- the "war against drugs" and the "war against guns." As for the drug war, it's *demand* that's keeping drugs pouring into the US. As long as demand is huge (and it is HUGE), the supply will be there to meet it. But the government keeps trying to cut off supply. It isn't working; it never has. In the meantime, our prisons are filling up with drug suppliers, dealers and users (many users are sellers of pot). It's costing the nation tens of billions of dollars. And it's a losing war.

As for the war on guns, this is just as senseless. What this war does is limit honest citizens' access to guns while the bad guys get all the guns they want. You don't believe it? Then note this clip

from last week's *San Diego Union*. As I said, the bad guys get all the guns they want -- one way or the other. Oceanside is about 30 miles north of San Diego.

Guns stolen from Oceanside range

UNION-TRIBUNE

OCEANSIDE — Seventy-eight handguns, ranging from .22-caliber weapons to high-powered semiautomatic pistols, were stolen early yesterday from the Oceanside Shooting Academy, a commercial shooting range at 618 Airport Road.

Police Sgt. Bill Krunglevich said the burglars smashed open the front door of the business and made off with the cache of weapons in a matter of minutes.

* *

Wireless War: Speaking of wars, there another war going on and it's in digital wireless networks. Two systems are fighting it out, Qualcomm's Code Division Multiple Access (CDMA) and the older established Global System for Mobile Communications (GSM). Motorola announced last week that it just won a contract from Japan's second largest phone company to install the CDMA system developed by the US company, Qualcomm (the contract will be worth up to $1.5 billion). Qualcomm will receive royalties. "This is the business equivalent of warfare," said Jeff Belk, Qualcomm's marketing director, "what's at stake here is hundreds of millions of dollars in revenues and hundreds of thousands of jobs across the world." Problem: in the early '90s the European Union named GSM the standard digital wireless technology, and some analysts in other countries seem to be following Europe's lead. Said DataQuest analyst Clint McClellan, "GSM is mature with a lot of different equipment ventures in the marketplace and is a lot less expensive to operate. On the other hand, companies that need to worry about capacity will need to look at CDMA." Ah yes, and to help publicize their name, Qualcomm just donated a cool $18 million to San Diego's sport stadium to help refinance the place in readiness for the 1998 Super Bowl. New name for the stadium -- "Qualcomm Stadium at Jack Murphy Field" or "the Q."

* *

Vanity Fair (March issue) contains the absolute best piece I've read yet on **Hong Kong.** Here are some excerpts: "Hong Kong, after several decades of spectacular economic growth, enjoys one of the highest standards of living in the world, with full employment, a substantial budget surplus, and a per capita income higher than that of its colonial homeland and most other countries . . . Hong Kong is today regarded by Washington-based Heritage Foundation as the world's purist free-market economy. Taxes are the lowest in the world (income tax is no more than 15%), the government confines itself to providing only essential public services (which it does efficiently, spending less than a fifth of Hong Kong's domestic product). Property prices, always a key to this small, overcrowded city-state, are close to historic highs despite the imminent prospect of a Communist landlord. Hong Kong's property magnates have started to invest a staggering $80 billion in new commercial and residential developments that will go up between now and the end of the decade -- enough to buy several Rockefeller Centers . . . Hong Kong's wealthy business community is already doing big business with China. Its companies employ over five million people on the Chinese mainland and account for the bulk of foreign investment in China . . . China is already the biggest investor in Hong Kong, having overtaken first the British, then the Americans and the Japanese over the past decade. If Hong Kong goes down the drain, much Chinese treasure goes with it -- a thought which keeps the city-state's business folks optimistic . . . 'There is an agreement in place between Hong Kong's very rich and the Communist elite in Beijing,' confirms Willy Lam, a correspondent for the *South China Morning Post,* 'Together they will defend the Hong Kong dollar and keep the markets strong after June 30' . . . A huge fighting fund of $160 billion has been amassed should any George Soros-type trader decide to speculate on the collapse of Hong Kong's dollar . . . David Chang, an Anglicized Hong Kong entrepreneur, has few doubts about the future: 'There is no way China is going to run this place worse than the last five years of British rule. The world is waiting to judge China compared with Britain. Too much Chinese pride is on the line for it to fail. They'll succeed even if they have to throw money at the property market -- and they'll force the local tycoons to do the same'.

"'The Chinese Communist party is no longer about the expropriation of private property or the redistribution of wealth,' says Jesse Wong, 'It is only out to stay in power.' That should come as no surprise: with power has come great wealth for the families whose fathers led the Chinese Communist revolution 50 years ago. Chinese industry is now run by their offspring -- the 'Red Princelings.' China's ruling elite has gone from Revolutionary Marxist to New Aristocracy in only one generation . . . The PLA (People's Liberation Army) is less an army (its fighting capability is now in shambles) than a massive military-industrial complex that controls more than 20,000 companies, including a dozen major conglomerates. Since the PLA is a major player in smuggling, piracy, extortion and even kidnapping, there is clearly much scope for murky dealings to sully Hong Kong's reputation. 'Our biggest fear is corruption,' admits Carson Wen, 'which has grown in China as a result of centralized, state-sponsored growth.' It is already the chief reason for the unpopularity of the Communist Party within China. 'There is no historical precedent for what is about to happen,' says the editor of *Asia Inc.,* 'one of the world's most sophisticated cities is about to be taken over by a primitive government.'" **Russell comment:** From everything I've read it looks as though Hong Kong will accept some loss of freedom in return for continued profits and prosperity. Furthermore, China's dictators will **not** wreck Hong Kong -- too many of their children already control or own much of it.

* *

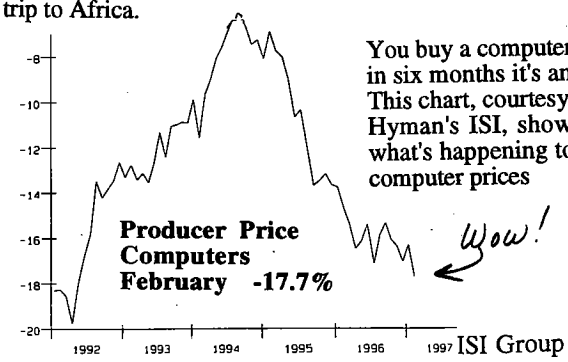
Fast Food Fall: Bermuda Prime Minister David Saul, plagued by his decision to allow former Prime Minister John Swan to open a McDonald's franchise in the colony, announced his resignation last week. Bermuda residents have long fought any attempt to open fast food restaurants on their balmy island. The residents won this round, and there are still no McDonald's or any other fast food franchises on the island of Bermuda.

* *

Last week for the first time in history three **Chinese warships** visited the US, docking in San Diego. US citizens were allowed on the boats, but with 8,000 visitors (mostly Chinese-Americans from San Diego) clamoring aboard the ships the first day, I decided just to read about it in our local newspapers. Chinese sailors were allowed to wander anywhere in San Diego. One sailor who visited a shopping center here was asked if he bought anything. "No," he answered, "everything I saw was made in China."

* *

With the newspapers (even Democratic papers like the *LA Times*) harping on the disgraceful money-grubbing performance of Clinton, Gore and the Democratic party, the President and the VP do what politicians usually do when they're under pressure -- they dash out of the country. No sooner did Clinton return from Helsinki than Gore was off to Japan and China. Even Hillary managed to disappear -- she and Chelsea were off on a two-week trip to Africa.



You buy a computer and in six months it's an antique. This chart, courtesy of Ed Hyman's ISI, shows what's happening to computer prices

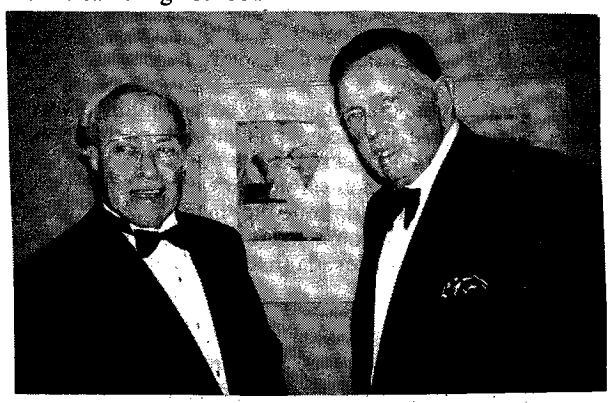
* *

I just got delivery on a new Mercedes' SLK 230, the little two-seater convertible with the four cylinder supercharged engine and the metal top that folds automatically into the luggage department (in exactly 24 seconds). The SLK stands for *Sportlich, Leicht, Kompakt.* The word Kompressor appears on both front fender panels, and it means supercharged. Wrote the *LA Times* last week,

"The SLK's windproof, sound-resistant, rain-damming top stands alongside America Online and staple guns as one of the man-made miracles of our times. Top down you have a roadster and fresh air in your face, top up you are in a snug, hard-hatted coupe." My verdict -- it's one terrific little car, a pleasure to drive and great fun. And the folding hardtop roof is truly amazing (every time I fold it a crowd gathers). I ordered the SLK a year ago, and finally got delivery. Delivery time is now 18 to 24 months, and, if you can find one, they're selling at a premium of $5,000 here in California.

* *

My old high school mate, Marvin Davis, has purchased property in Las Vegas, and will build a "substantial" casino-hotel complex on the Las Vegas strip. Marvin made his money as a wildcatter in oil, then turned to real estate, buying Pebble Beach in California, the Beverly Hills Hotel, plus other assorted properties. Marvin and his wife threw a huge charity party a few months ago (he does this every other year), and I was there. Here I am talking to Marvie about our old school days at Horace Mann. Marvin is four inches taller than I am, weighs 50 pounds more than I do, and has roughly a few billion dollars more than I do. But listen, once you're over 65, all men (and women) tend to be equals, particularly if they went to the same high school.



Marvin Davis Is Pursuing Plans to Build Big Casino-Hotel Complex in Las Vegas

By Christina Binkley
Staff Reporter of The Wall Street Journal

Billionaire investor Marvin Davis, after hinting for years about getting into gambling big time, said he has acquired an right now to make any decisions."

In Las Vegas, Mr. Davis said the project on the drawing board would be developed through his Los Angeles-based company, Davis Cos. "We do everything

* *

The Academy Awards are over, and the anguish and worries are over for 1997 and ready to start again for '98. One trend has become clear -- writers like to write about afflicted characters and actors love to act them. Consider this: last year Nicholas Cage won the best-actor award for his portrayal as a drunkard in "Leaving Las Vegas," before that it was Tom Hanks as a simpleton in "Forrest Gump" and as an AIDS victim in "Philadelphia," prior to that it was Al Pacino winning as a blind man in "Scent of a Woman," before that we had Anthony Hopkins as a psycho cannibal in "Silence of the Lambs," Daniel Day Lewis as a man with cerebral palsy in "My Left Foot," Dustin Hoffman as an autistic savant in "Rain Man," and on and on. Why the interest in acting the inflicted and disabled? Says one expert, actors love to play handicapped characters, lisps, limps, sicknesses, humps, eye patches, because quirks and handicaps offer mannerisms and affectations that actors can really sink their teeth into.

* *

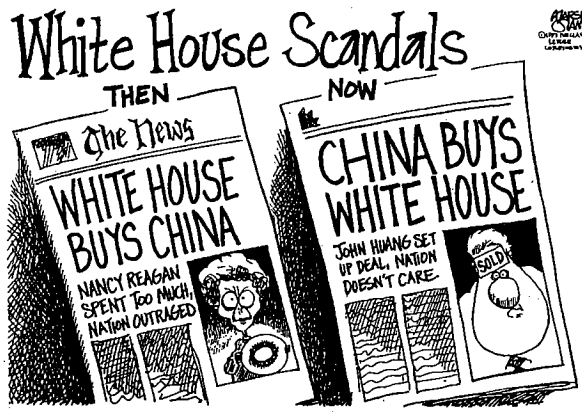
Alternative medicine is gathering an increasing following among Americans. Recent studies show that touching, massaging, hands-on following operations mean faster healing for patients. As for drugs and herbs, look at the shelves of any large drug store chain, and you'll see everything from melatonin to valerian to ginseng to all varieties of Chinese herbs. In my opinion, the trend to alternative medicine is being hastened by the shortcomings of HMOs. More and more people are thinking that to stay healthy they are going to have to treat themselves with non-prescription "drugs" and herbs. Fact: 92 of 125 medical schools (including Harvard) now offer courses in non-traditional healing methods. There's even a Federal Office of Alternative Medicine, with a tiny budget of only $12 million.

* *

Speaking of health, last week Mr. Harrison Doyle of Vista (just north of San Diego) died at the age of 108. A prolific writer, in '88 Mr. Doyle wrote "Harrison Doyle at 97, How I Sustain My Vital Electrical Life Force." He told the *San Diego Union* in 1988, "I don't intend to retire until I turn 100. Maybe then I'll quit. Who knows?" Doyle attributed his long life to more than good genes. He said, "An individual's chance of suffering from medical problems are lessened if he or she remains active. If a person just hangs around and does nothing, then the body will lose its mass and the brain will become inactive." Doyle did a series of basic stretches in his later years, danced an occasional jig, and believed in three square meals derived from basic food groups. **Russell comment:** Born in 1889 and died in 1997 -- anyone who has lived that long is worth listening to.

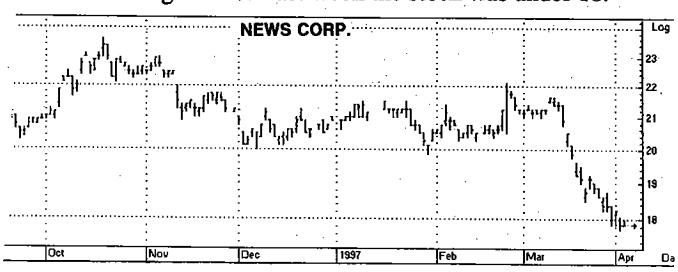
* *

They used to badger Nancy Reagan because she bought fancy China plates for the White House. But "things change" as we note from what I thought was an excellent cartoon.



* *

Will Rupert Murdoch and his News Corp. take over the world? Not yet. In 1990 Murdoch's wild spending almost sunk the corporation. Now investors are worried that the same thing may be happening again. Said one analyst, "He's been doing a $500 million to $1 billion acquisition a week for the last four weeks . . . The stock is taking a beating because of the company's acquisitiveness, distractions from its legal battles with Time Warner, the floundering of the Fox News Channel and the transition of Fox Broadcasting as it digests the New World stations." The analyst gives Fox a 50% chance of surviving. investors are worried about the enormous cost of News Corp. for building its Sky satellite TV service. At any rate, Wall Street's appraisal of News Corp. can be seen on the chart. In March '96, NWS sold as high as 24. Last week the stock was under 18.



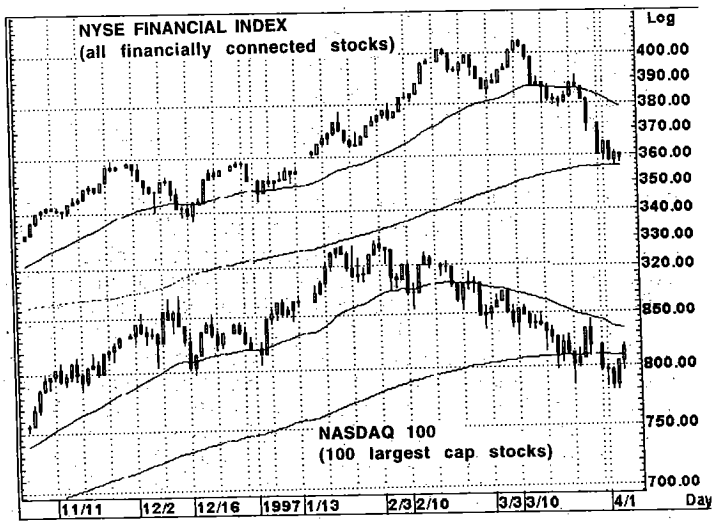
* *

Statistics: In 1996 there were 27% more individual bankruptcies than in '95. The largest increase was in central California. On top of that, credit card delinquencies are now at a record high . . . Cigarette smoking is increasing among US teenagers. But among all Americans, smoking is down to 25% of the population (the all-time high was 37%) . . . The average studio movie now costs a whopping $60 million to put out (including ads, prints, etc.). Currently, there are four movies in progress each costing over $100 million. Last year Hollywood spent over $2 billion on movie advertising . . . During a **normal day** in the US, nearly 11,000

babies are born and 6,000 people die; about 7,000 couples get married and over 3,000 get divorced, two million gallons of ice cream are made and 200 million chicken eggs are laid . . . The average American child watches 3.5 hours of TV each day, so by the time the child has graduated from high school he or she has logged 18,000 hours of TV vs. about 13,000 hours in the classroom . . . But there's always sports. Tiger Woods, not yet graduated from Stanford, received $60 million dollars for endorsing Nike and Titleist . . . Speaking of sports, basketball (amateur and pro) is on a worldwide search for tall men. In this year's NCAA men's tournament there were 62 foreign players on 37 teams. Of those 62 players, 35 were six foot nine or better. The roster of foreign players in Division 1 of men's college basketball jumped from 144 in 1992 to 244 this year . . . Nearly six in 10 workers in the private sector reach retirement age with no pension for their life-long work. About 75% of government employees, who make up 15% of the total work force, have pensions . . . Percentage of black players in the NFL -- 67%; in the NBA -- 80%; in Major League Baseball -- 17%. Baseball is now worried about black disinterest in baseball, both on the part of the players and the audience. My theory -- blacks prefer direct confrontational body-sports like boxing, football, basketball and the dashes in track.

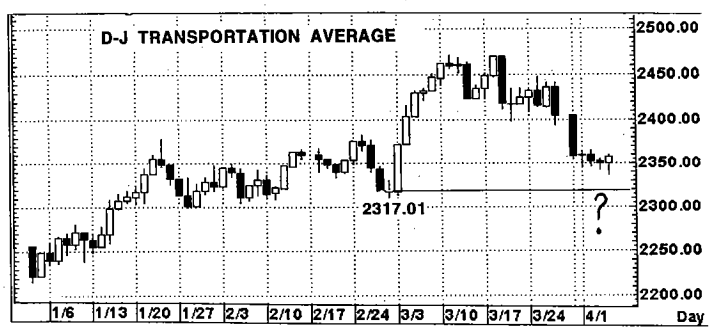
* *

Funds: Here are a few fascinating (frightening) statistics, courtesy of the American Funds Group. Total number of US mutual funds -- 7,000. Managers' average years of experience -- 3.5 years. Managers' average age -- 29.5. Percentage of managers with bear market experience: with '73-'74 bear market -- 14%; with the '87 crash -- 20%. Number of funds which have changed managers since 1995 -- 1,000. Finally, 85% of ALL the money now invested in mutual funds has come in since 1990.



CHARTS: The charts above are significant. The NYSE Financial Index includes ALL financially-related stocks including banks, S&Ls, insurance, brokerage, small loans, etc. Thus this index is extremely important. The Financial Index has broke below its 34-day moving average and is sitting on its longer-term or 144-day MA. Note this Index has fallen out of a head-and-shoulders top.

The Nasdaq 100 includes the 100 largest cap stocks on the Nasdaq including many big software and computer stocks.. This average has been declining all year and is now sitting on its 144-day MA.



GOLD: There's nothing wrong with holding 5% or even 10% of your assets in gold coins. If a huge bear market (utter disaster) hits and the value of EVERYTHING (stocks, bonds, dollars) is in doubt, there won't be any doubt about one item -- gold. The reason: gold's value is intrinsic. Gold can't disappear like a currency, gold can't tarnish or rust, gold can't go bankrupt. Real money can't go bankrupt, and only gold is REAL, honest-to-God money. Paper (fiat) "money" wouldn't be held by anyone if it didn't pay interest. Gold is the ONLY money that doesn't pay interest. Gold doesn't have to pay interest because it's got a five thousand year history of being here, being accepted and being trusted.

The fact is that gold, the metal, is not doing badly in the market. The June gold contract is holding around 350. Not so, the gold shares. I'm including a monthly chart of XAU, the Phila. Gold/Silver average. XAU is down to around 103 now, down from a 1996 high of 155.60. The level I've got my eye on now is the 96.01 extreme low recorded in January of 1995. If that low is violated, well, it would be extremely negative for the gold shares.

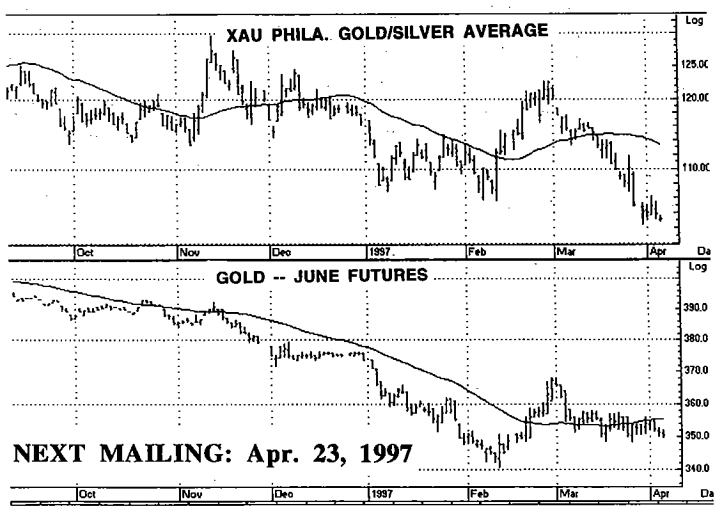
And I'm wondering, is the action of the gold shares a prediction of deflation, probably world deflation? Tie the gold share action in with the lack of pricing power in most commercial items plus the recent rotten action of the stock market and you have to wonder. World deflation? It's hard to believe with almost every central bank moving to reflate -- but stranger things have happened.

Gold, the metal, on the other hand, has been holding its own in the 350 zone. But as I said, people hold the metal for a different reason than they hold the gold stocks. Let me put it this way -- I never worry about holding gold coins. But I do worry about holding gold stocks unless they are in a definite bull market. Two gold royalty shares that I continue to recommend (on the Toronto exchange) are Euro Nevada and Franco Nevada (listed daily in Canadian dollars in the *WSJ*).

LATE NOTES: Places where I am watching -- the **D-J Transports** to see whether they hold above or break below the critical **2317.01** level. Interestingly, the Transports are the only major stock average that has not yet broken down (see chart at lower left of this page).

And most importantly, I'm watching the **daily advances and declines.** As you must know by now, any stock average (particularly the Dow) can travel all over the map during a trading session, but intra-day action can be very deceptive. It's where the average CLOSES that's significant. However, the advance-declines, which include ALL the stocks on the Big Board, cannot be manipulated and tend to be much steadier and more indicative of direction than say the Dow.

A third place I am watching is the combination of the **Utility Average** and the **bonds** (see chart on page 2). As this is written, both of these have sunk to **new lows** for the year, and as I've said so many times, a declining trend in both utilities and bonds is always a **powerful negative** for the stock market.



NEXT MAILING: Apr. 23, 1997